

IRS News Release

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Some Refinancing Costs May Be Deductible

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WASHINGTON — The Internal Revenue Service reminded taxpayers who took advantage of this year's low interest rates to refinance their mortgages that they may be eligible to deduct some costs associated with their loans.

Generally, taxpayers who itemize may deduct the "points" paid to obtain a home mortgage as interest. They may deduct the points on the mortgage related to a home purchase or a home improvement in the year paid, but for other loans – such as a refinanced mortgage – they must deduct the points over the life of the loan.

To figure the annual deduction amount, divide the total points paid by the number of payments to be made over the life of the loan. Usually, this information is available from the lender. For example, a homeowner who paid \$2,000 in points on a 30-year mortgage (360 monthly payments) could deduct \$5.56 per payment, or a total of \$66.72 for 12 payments. Taxpayers may deduct points only for those payments actually made in the tax year.

A taxpayer who uses part of the refinanced mortgage money to pay for improvements to the home, and meets certain other requirements, may generally deduct the points associated with the home improvements in the year paid, spreading out the rest of the points over the life of the loan.

When refinancing for a second time, or paying off a loan early, a taxpayer may deduct all the not-yet-deducted points from the first refinancing when that loan is paid off.

Other closing costs, such as appraisal fees and processing fees, generally are not deductible. Taxpayers with adjusted gross income above \$139,500 – \$69,750 if married filing separately – also face limits on the amount of deductions they can take.

IRS Publication 936, "Home Mortgage Interest Deduction," has details on deductions related to refinancing. It is available at the IRS Web site, www.irs.gov, or by calling (toll-free) 1-800-829-3676.